

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03
LAB-04 SIL-01 OMB-01 STR-04 CEA-01 ACDA-07 OES-06
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FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC 1680
INFO USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L TEHRAN 2411

E.O.11652: GDS
TAGS: EFIN, ECON, MPOL, IR
SUBJ: IRANIAN NATIONAL BUDGET AND MILITARY EXPENDITURES

REF: (A) 76 TEHRAN 2818, (B) TEHRAN 1657, (C) TEHRAN 2322

1. OF THE 63.3 BILLION RIALS RESTORED (REF C) TO THE IRANIAN STATE BUDGET FOR YEAR 2536 (BEGINNING MARCH 21), EXPECTED TO BE PASSED MARCH 17, UNDERSECRETARY OF PLAN AND BUDGET ORGANIZATION SAFAVIAN CONFIRMED THAT RLS. 45 BILLION (\$638 MILLION) WILL BE APPLIED TO THE MILITARY'S CURRENT EXPENDITURE BUDGET, I.E., OPERATIONS, NOT CAPITAL. THIS WOULD, IF CORRECT, RESTORE 45 OF THE 160 BILLION RIALS CUT FROM THE MILITARY BUDGET ON THE BASIS OF LOW OIL REVENUE EXPECTATIONS (REF B). THIS RESTORATION HAS NOT BEEN MADE PUBLIC AND THE ALLOCATION TO DEFENSE IS EXPECTED TO BE UNIDENTIFIED, ALTHOUGH THE PRIME MINISTER IN HIS BUDGET PRESENTATION SPEECH (REF B) SAID FIRST RESTORATIONS WOULD GO TO DEFENSE. BY INCLUDING THIS \$638 MILLION WITH ADJUSTMENTS TO THE MILITARY BUDGETS FOR 2535 AND 2536 DECLARED IN THE NOTES ACCOMPANYING THE BUDGETS, WE SHOW A 6.9 PERCENT INCREASE IN DEFENSE EXPENDITURES FOR YEAR 2536, WHICH ENDS MARCH 20, 1978. THE TOTAL FIGURES ARE RLS. 590.1 BILLION (\$8370 MILLION) AND RLS. 630.7
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BILLION (\$8,946 MILLION) FOR 2535 AND 2536 RESPECTIVELY.

2. THE ACTUAL DEFENSE BUDGETS DIFFER FROM THE ABOVE. THE EMBASSY, IN REFS A AND B, REPORTED THE GOI PRACTICE OF DISGUIISING SOME OF THE DEFENSE EXPENDITURES IN THE BUDGET. BUT EVEN THE USE OF ACTUAL DEFENSE FIGURES (REF A FOR 2535 AND PREVIOUS YEARS AND REPORTED IN SEPARATE CHANNEL FOR 2536) MISREPRESENTS THE STRICTLY

DEFENSE FUNCTION COSTS. FOR EXAMPLE, WE ARE INFORMED THAT THE CURRENT BUDGET CONTAINS SOME \$1.2 BILLION FOR TELECOMMUNICATIONS; YET A LITTLE OVER HALF OF THIS IS BURIED IN THE DEFENSE BUDGET ALTHOUGH ALLOCATION OF ALL OR THE VAST PART TO THE CIVILIAN SECTOR COULD BE DEFENDED. THE LARGE MILITARY INDUSTRIES ORGANIZATION, DIRECTED BY VICE MINISTER OF WAR GEN. TOUFANIAN, IS ENGAGED IN A WIDE VARIETY OF PRODUCTION ACTIVITIES WHICH SPILL INTO CIVILIAN SUPPLY AND WHICH EVEN WITH RESPECT TO MILITARY PRODUCTION WOULD NOT BE FOUND IN THE DEFENSE BUDGET OF MOST MARKET ECONOMIES; YET, THE BULK OF ITS FUNDING IS IN THE MOW BUDGET. THE MIO RECEIVES A PALTRY \$11.2 MILLION DIRECTLY FROM THE GENERAL BUDGET, ALL FOR CAPITAL EXPENDITURES. THUS, WERE THE GOI TO INCLUDE IN THE EXPLICIT DEFENSE BUDGET ALLOCATIONS SUCH ITEMS AS DEFENSE CONSTRUCTION, WHICH IN RECENT YEARS HAS BEEN DISGUISED AS "OTHER GOVERNMENT BUILDINGS" IN THE CAPITAL ACCOUNT, AND EXCLUDE ITEMS NOT STRICTLY DEFENSE, AS ABOVE, THE AGGREGATE DEFENSE BUDGET WOULD LIKELY APPROXIMATE THAT EXPLICITLY IDENTIFIED IN THE BUDGET.

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Message Attributes

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